



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2008

*The following management's discussion and analysis of financial condition and results of operations, dated May 12, 2008 of Supremex Income Fund (the "Fund") should be read together with the audited consolidated financial statements and related notes for the year ended December 31, 2007 and with the unaudited consolidated financial statements and related notes for the three-month period ended March 31, 2008. The financial statements of the Fund are prepared in accordance with accounting principles generally accepted in Canada ("GAAP"). The fiscal year of the Fund ends on December 31. The Fund's reporting currency is the Canadian dollar. Per unit amounts are calculated using the weighted average number of units outstanding for the three months ended March 31, 2008.*

*This discussion contains forward-looking statements. Please see "Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements. This discussion also makes reference to certain non-GAAP measures to assist in assessing the Fund's financial performance. Non-GAAP earnings measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. See "Definition of EBITDA, Adjusted EBITDA, Distributable cash and Non-GAAP Measures" and "Selected Consolidated Financial Information" for the reconciliation of EBITDA to net earnings.*

### **The Fund**

The Fund is an unincorporated, open-ended trust established under the laws of the Province of Quebec by a fund declaration of trust made as of February 10, 2006 as amended and restated as of March 31, 2006. The Fund was established to acquire and hold the common shares of Supremex.

The Fund's units trade on the Toronto Stock Exchange under the symbol SXP.UN. Additional information relating to the Fund can be found at [www.sedar.com](http://www.sedar.com).

### **Acquisition of NPG**

On August 9, 2007, the Fund acquired substantially all the assets of NPG Envelope ("NPG") for a cash payment of \$25.6 million, including a working capital adjustment. The cash payment was funded with a combination of funds raised from the existing revolving credit facility and cash on hand.

NPG was the second largest envelope manufacturer in Canada with approximately \$26 million in revenues. The NPG acquisition is consistent with the Fund's acquisition strategy to identify consolidation opportunities within its existing core business segment and acquire strong companies with complementary strengths and significant opportunities to achieve meaningful synergies. Corporate synergies are expected to consist primarily of cost savings relating to raw materials and reduction of overhead. This strategy is intended to assist the Fund in achieving its goals and demonstrates its commitment to the future of its industry. Up to March 31, 2008, we have incurred \$3.7 million of restructuring costs of which \$2.9 million form part of the NPG purchase price allocation. However, the amount of these restructuring costs is subject to

modification as management completes a detailed assessment of the assets acquired pursuant to the NPG acquisition and changes may be made as more information becomes available.

At the time of the acquisition, NPG had approximately 150 employees and operated in Hamilton, Ontario and in Winnipeg, Manitoba.

### **Overview of the Fund**

Supremex is Canada's leading manufacturer and marketer of a broad range of stock and custom envelopes and related products. Supremex is the only national envelope manufacturer in Canada, with 11 manufacturing facilities across seven provinces and employs approximately 760 people. This national presence enables Supremex to satisfy the manufacturing requirements of large national customers, such as large Canadian corporations, nationwide resellers and governmental entities, as well as paper merchants and solution and process providers.

Supremex has the largest share of the Canadian envelope manufacturing industry. This leading market share is due to Supremex's unparalleled ability to successfully compete both on a local and national basis across Canada.

### **Overall Performance**

The first quarter of 2008 was in line with expectations given the overall business conditions. The US sales have continued to decline due to the strong Canadian dollar, the soft US market and the reduction of orders coming from Cenveo. The NPG acquisition done in August 2007 remains very accretive to the EBITDA with the Hamilton plant closure completed early May, the headcount is now back to the level it was prior to the NPG acquisition.

For the first quarter, revenue was \$47.5 million compared to \$47.7 million in 2007 and the Adjusted EBITDA was \$11.7 million compared to \$11.3 million in 2007. These 2008 numbers include the results of NPG for the whole quarter. The Adjusted EBITDA margin was 24.6% for this quarter compared to 23.6% in 2007. Restructuring expenses for an amount of approximately \$368,000 were recorded in this quarter raising from costs related to the NPG restructuring that do not qualify to be recorded as part of the purchase price allocation.

The market remains spotty. The resale market remains under pressure given the cheaper imports which forced an adjustment to the selling prices in the resale market in this quarter, but the consumer market is generally stable. The exports to the US were down by 45.6% in this quarter once again due to the strength of our currency, the soft US market and the reduction of volume sold to Cenveo since the fall of 2007 which coincides with their acquisition of Commercial Envelope. The 2 years supply agreement with Cenveo expired on March 31<sup>st</sup>, 2008.

We are pleased to say that the Normal Course Issuer Bid (NCIB) was completed in the quarter. The average cost of the 2,000,000 units purchased for cancellation was \$5.88.

## Distributable Cash

Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash flows available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or as an alternative to the statement of cash flows. The quarterly distributable cash is not necessarily indicative of the expected distributable cash for a full year. Distributable cash is not a recognized measure under GAAP and may not be comparable to similar measures used by other issuers.

### Determination of Distributable Cash

(In thousands of dollars, except for per unit amounts)

	Three months ended March 31,	
	2008	2007
	\$	\$
<b>Cash flows related to operating activities</b>	<b>8,224</b>	6,246
<i>Capital adjustment</i>		
Capital expenditures (1)	(575)	(911)
<i>Other adjustments</i>		
Net change in non-cash working capital balances (2)	<b>1,993</b>	4,048
Change in post-retirement benefits obligation and change in accrued pension benefit assets	<b>(268)</b>	130
<b>Distributable cash (3)</b>	<b>9,374</b>	9,513
<b>Distribution declared</b>	<b>8,470</b>	8,999
<b>Weighted average number of units outstanding</b>	<b>29,525</b>	31,312
<b>Distributable cash per unit</b>	<b>0.3175</b>	0.3038
<b>Distribution per unit</b>	<b>0.2869</b>	0.2874
<b>Payout ratio</b>	<b>90.4%</b>	94.6%

1. Capital expenditures refer to maintenance and growth capital expenditures, net of proceeds from disposal of assets replaced.

	Three months ended March 31,	
	2008	2007
	\$	\$
Maintenance capital expenditures	<b>809</b>	1,104
Proceeds from disposal of assets	<b>(234)</b>	(193)
<b>Capital expenditures</b>	<b>575</b>	911

2. Distributable cash excludes change in non-cash working capital as the changes within working capital components are often temporary by nature and, if needed, can be financed with the Fund's revolving operating credit facility.
3. See "Definition of EBITDA, Adjusted EBITDA, Distributable Cash and Non-GAAP Measures".

The Fund generated \$9.4 million or \$0.3175 per unit of distributable cash for the three-month period ended March 31, 2008. More detail concerning cash flow related to operating activities is provided under the “Liquidity and Capital Resources” section.

The Fund declared distributions of \$8.5 million or \$0.2869 per unit for the three-month period ended March 31, 2008, which was funded by distributable cash generated during the period.

The distributable cash generated exceeds actual distributions by \$0.9 million for the three-month period ended March 31, 2008. As a result, the Fund’s payout ratio defined as distributions declared as a percentage of distributable cash generated was 90.4% for the three-month period ended March 31, 2008, as compared to the targeted payout ratio of 90.0%. Since inception of the Fund, the payout ratio is 89.0%.

The Fund does not currently anticipate changing distribution to unitholders.

### **Distributions**

The Fund makes monthly distributions to unitholders of record on the last business day of each month, payable on or about the 15<sup>th</sup> day of the following month. The current distribution rate per unit is \$0.0958 per month. Distributions for the period of January 1, 2008 to March 31, 2008 were as follows:

Period	Record date	Payment date	Per unit \$	Distribution \$
January 2008	January 31, 2008	February 15, 2008	0.0958	2,832,630
February 2008	February 29, 2008	March 17, 2008	0.0958	2,829,345
March 2008	March 31, 2008	April 15, 2008	0.0958	2,808,058
<b>Total</b>			<b>0.2874</b>	<b>8,470,033</b>

The March distribution in the amount of \$2,808,058 was declared and accrued in March 2008 and paid to unitholders on April 15, 2008. The tax allocation of distributions for 2008 is expected to be 100% return on capital, thus income.

## Source of Funding

The source of funding for the above distributions to unitholders was cash generated by operations, existing cash balances and cash equivalents.

*(In thousands of dollars)*

	<b>Three months ended March 31, 2008</b>	<b>Since Inception</b>
	<b>\$</b>	<b>\$</b>
Distributable cash	<b>9,374</b>	80,071
Cash flows from operating activities	<b>8,224</b>	89,851
Net earnings	<b>6,332</b>	54,476
Actual cash distributions paid or payable relating to the period	<b>8,470</b>	71,278
<b>Excess of distributable cash over cash distribution</b>	<b>904</b>	8,793
<b>(Shortfall) excess of cash flows from operating activities over cash distribution</b>	<b>(246)</b>	18,573
<b>Shortfall of net earnings over cash distribution</b>	<b>(2,138)</b>	(16,802)

The shortfall of cash flows from operating activities over cash distribution is mainly related to the increased working capital excluding cash at the end of March 31, 2008.

The shortfalls of net earnings over cash distribution for the three months ended March 31, 2008 and since inception are mainly related to the various amortizations recorded that have no impact on cash generated.

## Summary of Quarterly Results

Supremex's revenue is subject to the seasonal advertising and mailing patterns of its customers. The number of products sold by Supremex is generally higher during the fall and the winter mainly due to the higher number of mailings related to events including the return to school, fund raisers, the holiday and tax seasons. The number of products sold by Supremex is generally lower during the spring and the summer in anticipation of a slowdown in mailing activities of businesses during the summer. As a result, Supremex's revenue and financial performance for any single quarter may not be indicative of the revenue and financial performance which may be expected for the full year. However, to maintain production efficiencies, Supremex utilizes warehouse capabilities to inventory envelopes as required to counter these predictable seasonal variations in sales volumes.

The following table presents a summary of operating results of the Fund and Supremex on a quarterly basis from April 1, 2006 to March 31, 2008.

*(In thousands of dollars, except for per unit amounts)*

	<b>Mar. 31, 2008</b>	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007	Mar. 31, 2007	Dec. 31, 2006	Sept. 30, 2006	Jun. 30, 2006
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	<b>47,545</b>	49,731	46,394	43,727	47,710	50,417	48,636	47,672
EBITDA (1)	<b>11,315</b>	13,337	10,876	9,463	11,295	12,741	12,147	7,408
Adjusted EBITDA (1)	<b>11,683</b>	13,755	10,876	9,463	11,295	12,741	12,147	11,712
Earnings before income taxes	<b>5,940</b>	7,907	5,769	4,647	6,726	5,835	7,546	2,677
Net earnings	<b>6,332</b>	9,554	6,446	5,825	6,888	5,912	7,957	5,395
Net earnings per unit basic and diluted	<b>0.2145</b>	0.3089	0.2059	0.1860	0.2200	0.1888	0.2541	0.1723

Notes

(1) See “Definition of EBITDA, Adjusted EBITDA, Distributable Cash and Non-GAAP Measures”. EBITDA and Adjusted EBITDA are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers.

The period from July 1, 2007 to March 31, 2008 includes results of operations of the NPG business for the period from August 9, 2007 to March 31, 2008.

EBITDA for the second quarter of 2006 decreased mainly due to the non-cash inventory step-up charge of \$4.3 million related to the inventory revaluation at its fair value at acquisition. At the date of acquisition of Supremex, inventory was increased by \$4.3 million to reflect its estimated fair market value less selling costs. The inventory was sold during the second quarter of 2006 and, accordingly, the quarter included an additional non-cash charge relating to the inventory sold.

The adjusted EBITDA for the fourth quarter of 2007 has been stronger due to the NPG acquisition and mainly due to the fact that it is typically a strong quarter in the envelope business. The Adjusted EBITDA for the first three quarters of 2007 has been impacted mainly by the decreased volume. The Adjusted EBITDA for the second quarter of 2007 has also been affected by the decrease of the average selling price due to a more competitive market place.

**Selected Consolidated Financial Information**  
(In thousands of dollars, except for per unit amount)

	Three months ended	
	March 31	
	2008	2007
	\$	\$
<b>Revenue</b>	<b>47,545</b>	47,710
Cost of goods sold, selling, general and administrative expenses	<b>35,862</b>	36,415
<b>Adjusted EBITDA (1)</b>	<b>11,683</b>	11,295
<i>Non Recurring Item:</i>		
Restructuring expenses (2)	<b>368</b>	—
<b>EBITDA (1)</b>	<b>11,315</b>	11,295
Amortization of property, plant and equipment	<b>1,157</b>	938
Amortization of intangible assets	<b>1,502</b>	1,406
Amortization of deferred compensation	<b>1,324</b>	1,329
(Gain) loss on disposal of property, plant and equipment	<b>(14)</b>	9
Net financing charges	<b>1,406</b>	887
<b>Earnings before income taxes</b>	<b>5,940</b>	6,726
Income taxes recovery	<b>(392)</b>	(162)
<b>Net earnings</b>	<b>6,332</b>	6,888
Basic and diluted net earnings per unit	<b>0.2145</b>	0.2200
Distribution declared per unit	<b>0.2869</b>	0.2874
Total assets	<b>404,145</b>	393,427
Secured credit facilities	<b>102,786</b>	74,546

1. See “Definition of EBITDA, Adjusted EBITDA, Distributable Cash and Non-GAAP Measures”.
2. Restructuring expenses are related to the plan adopted to integrate and restructure NPG following its acquisition. Any costs incurred relating to employees and facilities previously part of the Fund are charged to restructuring expenses as incurred.

**Results of Operations**

***Three months ended March 31, 2008 compared to three months ended March 31, 2007***

*Revenue*

Revenue for the three-month period ended March 31, 2008 was \$47.5 million, compared to \$47.7 million for the three-month period ended March 31, 2007, representing a decrease of \$0.2 million or 0.4%. The decrease is attributable mainly to sales in the United States offset by the increased sales in Canada.

Revenue from sales in Canada increased by \$2.9 million or 7.1%, from \$40.9 million to \$43.8 million, and the revenue from sales in the United States decreased by \$3.1 million or 45.6%, from \$6.8 million to \$3.7 million.

The results of the operations of the NPG business are included for the whole quarter and cannot be isolated due to the integration of their activities in our systems. Consequently, the increase in revenue from sales in Canada was driven by an increase in the combined number of units sold of 10.7% offset by a decrease of the average selling price of 3.3%.

The decrease in revenue from sales in the United States was due to a decrease in the number of units sold of 49.6% offset by an increase of the average selling price of 8.6% considering the strengthening of the Canadian dollar of 14.3%. The strengthening of the Canadian dollar and the softness of the US market were the major factors affecting sales in the United States. The two years supply agreement with Cenveo expired on March 31, 2008 but the volume sold to Cenveo was minimal in the first quarter of 2008.

#### *Cost of goods sold, selling, general and administrative expenses*

Cost of goods sold, selling, general and administrative expenses for the three-month period ended March 31, 2008 was \$35.9 million, compared to \$36.4 million for the three-month period ended March 31, 2007, representing a decrease of \$0.5 million or 1.4%.

The cost of goods sold for the three-month period ended March 31, 2008 was \$30.6 million compared to \$30.9 million for the same period in 2007, representing a decrease of \$0.3 million or 1.0%. The decrease results from the strengthening of the Canadian dollar offset by the increased cost of raw material and labour.

The gross profit (revenue less cost of goods sold excluding the amortization of property, plant and equipment) was \$16.9 million for the three-month period ended March 31, 2008, compared to a gross profit of \$16.8 million for the comparable period in 2007, representing an increase of 0.1 million or 0.6%. As a percentage of sales, the gross profit increased by 0.5% in 2008 compared to 2007.

Selling, general and administrative expenses were \$5.3 million for the three-month period ended March 31, 2008, compared to \$5.5 million for the same period in 2007, representing a decrease of \$0.2 million or 3.6% mainly attributable to a general reduction of expenses in 2008.

#### *Adjusted EBITDA*

As a result of the changes described above, the Adjusted EBITDA was \$11.7 million for the three-month period ended March 31, 2008, compared to \$11.3 million for the same period in 2007, representing an increase of \$0.4 million or 3.5%.

#### *Non-recurring item*

Restructuring expenses are related to the plan adopted to integrate and restructure NPG following its acquisition. Any costs incurred relating to employees and facilities previously part of the Fund are charged to restructuring expenses as incurred.

#### *EBITDA*

As a result of the changes described above, the EBITDA remained stable at \$11.3 million.



### *Amortization*

The aggregate amortization expense for the three months ended March 31, 2008 amounted to \$4.0 million, compared to \$3.7 million for the same period in 2007, representing an increase of \$0.3 million or 8.1%. This increase is attributable to the additional amortization of property, plant and equipment following the NPG acquisition.

### *Net financing charges*

Net financing charges amounted to \$1.4 million for the three months ended March 31, 2008 compared to \$0.9 million for the same period in 2007, representing an increase of \$0.5 million or 55.6%, mainly related to the financing of the NPG acquisition and the purchase of Fund units for cancellation.

### *Earnings before income taxes*

Due to the changes in revenue and expenses described herein, the earnings before income taxes were \$5.9 million for the three months ended March 31, 2008, compared to \$6.7 million for the same period in 2007, representing a decrease of \$0.8 million or 11.9%.

### *Income taxes recovery*

During the three months ended March 31, 2008, the Fund recorded an income tax recovery of \$0.4 million. The income tax recovery takes into consideration, in addition to the income taxes expense at statutory rate of \$1.9 million, a reduction of \$2.8 million attributable to the impact of interest income earned by the Fund and paid by Supremex. This recovery was partially offset by an amount of \$0.5 million related to the non-deductible amortization of deferred compensation, the effect of change in enacted tax rate and other non-deductible expenses.

### *Net earnings*

As a result of the changes described above, net earnings were \$6.3 million for the three-month period ended March 31, 2008 compared to \$6.9 million for the same period in 2007, representing a decrease of \$0.6 million or 8.7%.

## **Segmented Information**

The Fund currently operates in one business segment, being the manufacturing and sale of envelopes. The Fund's net assets amounted to \$260.4 million in Canada and \$1.1 million in the United States as at March 31, 2008. In Canada, the Fund's revenue amounted to \$43.8 million for the three-month period ended March 31, 2008 compared to \$40.9 million for the same period in 2007, representing an increase of \$2.9 million or 7.1%. In the United States, the Fund's revenue amounted to \$3.7 million for the three-month period ended March 31, 2008 compared to \$6.8 million for the same period in 2007, representing a decrease of \$3.1 million or 45.6%.

## Liquidity and Capital Resources

Cash flows from operating activities were \$8.2 million for the three-month period ended March 31, 2008, primarily attributable to earnings generated in the period, non-cash items including various amortization charges offset by an increase in non-cash working capital and a future income taxes recovery.

Cash flows used in investing activities, amounting to \$0.6 million for the three-month period ended March 31, 2008, are attributable to the net additions to property, plant and equipment.

Cash flows used in financing activities were \$7.9 million for the three-month period ended March 31, 2008 mainly related to the distribution paid on fund units and the purchase of Fund units for cancellation offset by the amount drawn on the revolving operating credit facility.

## Off-Balance Sheet Arrangements

Operating lease commitments have been disclosed in the Fund's audited consolidated financial statements as of December 31, 2007 and did not significantly change since that date. Information with respect to the interest rate Swap is disclosed in note 12 to the interim consolidated financial statements for the three-month period ended March 31, 2008.

## Financial Position Highlights

*(In thousands of dollars except for ratio)*

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<b>\$</b>	<b>\$</b>
Working capital	<b>21,868</b>	22,161
Total assets	<b>404,145</b>	404,780
Total secured credit facilities	<b>102,786</b>	100,588
Unitholders' equity	<b>261,502</b>	264,802
Long-term debt to equity ratio	<b>39.3%</b>	38.0%

The Fund was in compliance with the covenants of its credit facilities as at March 31, 2008.

### *Capitalization*

As at May 12, 2008, there are 29,311,667 units issued by the Fund.

Units issued include 2,364,228 units valued at \$23,642,280 issued to employees for a cash consideration of \$23,642 as part of the business acquisitions and to amend the then existing Management profit sharing plan. As these units will vest over four years, subject to earlier vesting, the unamortized value of such units as at March 31, 2008, amounting to \$10,575,277 is recorded as deferred compensation and is recorded as compensation expense over the vesting period. Each unit entitles the holder to participate equally in all allocations and distributions of the Fund and to one vote at all meetings of unitholders.

In the first quarter of 2008, the Fund purchased 256,500 units at prices ranging from \$5.60 to \$5.80 per unit as part of a normal course issuer bid initiated on November 8, 2007, and thus completed it in the first quarter of 2008.

## **New Accounting Policies**

In the first quarter of 2008, the Fund has adopted four new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): section 1535, *Capital Disclosures*; section 3862, *Financial Instruments - Disclosures*; section 3863, *Financial Instruments – Presentation* and section 3031, *Inventories*. These new standards establish standards for disclosing and presenting information related to financial instruments and to the entity's capital, as well as determination of inventory measurement. The application of these new standards had a negligible effect on the Fund's financial statements and financial position.

In February 2008, the CICA announced that Canadian public companies will adopt International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) effective January 1, 2011. The Fund is currently assessing the impact of adoption of IFRS on its consolidated financial statements.

In the first quarter of 2007, the Fund has adopted three new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): section 1530, *Comprehensive Income*; section 3855, *Financial Instruments – Recognition and Measurement*; and section 3865, *Hedges*. These new standards establish standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives. Certain changes in the value of these financial instruments are presented in a new financial statement, *Comprehensive Income*. The application of these new standards had a negligible effect on the Fund's financial statements and financial position.

## **Risk factors**

As a result of operations, business prospects and financial condition, the Fund is subject to a number of risks and uncertainties, and is affected by a number of factors outside the control of the management. Details are provided in the "Risk Factors" section of the Fund's Annual Information Form, dated February 20, 2008 (which can be found at [www.sedar.com](http://www.sedar.com)).

## **Disclosure Controls and Internal Controls**

The Fund's CEO and CFO have assessed the effectiveness of the disclosure procedures and controls used for the consolidated financial statements and Management's Discussion and Analysis as at March 31, 2008. Their assessment led them to conclude that the disclosure procedures and controls used for the financial statements and Management's Discussion and Analysis were effective.

The CEO and the CFO are responsible for designing internal control over financial reporting (ICFR), or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of the Fund's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There were no changes in the Fund's ICFR during the most recent interim period that have materially affected, or are reasonably likely to materially affect, the Fund's ICFR.

## **Forward-Looking Statements**

This management's discussion and analysis contains forward-looking statements relating to the future performance of the Fund. A statement is forward-looking when it uses what the Fund knows and expects today to make a statement about the future. Forward-looking statements may include words such as *anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, seek, should, strive, target* and *will*. These statements relate to future events or future performance and reflect current assumptions, expectations and estimates of Management regarding growth, results of operations, performance, business prospects and opportunities, Canadian economic environment and ability to attract and retain customers. Such forward-looking statements reflect current assumptions, expectations and estimates of Management and are based on information currently available to the Fund as at the date of this document. Forward-looking statements are subject to certain risks and uncertainties, and should not be read as guarantees of future performance or results and actual results may differ materially from the conclusion, forecast or projection stated in such forward-looking statements. Consequently, we cannot guarantee that any forward-looking statements will materialize. Such assumptions, expectations, estimates, risks and uncertainties are discussed throughout our MD&A for the fiscal year 2007 and, in particular, in Risk Factors. Consequently, readers should not place any undue reliance on such forward-looking statements. The Fund disclaims any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

## **Definition of EBITDA, Adjusted EBITDA, Distributable Cash and Non-GAAP Measures**

References to "EBITDA" are to earnings before net financing charges, income taxes, amortization of property, plant and equipment, intangible assets, deferred compensation and gain or loss on disposal of property, plant and equipment.

"Adjusted EBITDA" is EBITDA adjusted to take into consideration the restructuring expenses and the non-cash inventory step-up charge resulting from the adjustment to fair value of inventory at the date of acquisition of Supremex by the Fund.

Management views distributable cash as an operating performance measure, as it is a measure generally used by Canadian income funds as an indicator of financial performance. Distributable cash is defined as cash flow related to operating activities adjusted for the net change in non-cash working capital balances, change in post-retirement benefits obligation, change in accrued pension benefit assets and maintenance capital expenditures. Distributable cash is important as it summarizes the funds available for distribution to unitholders. As the Fund will distribute substantially all of its cash on an on-going basis and since EBITDA and Adjusted EBITDA are metrics used by many investors to compare issuers on the basis of the ability to generate cash from operations, management believes that in addition to net earnings, EBITDA and Adjusted EBITDA are useful supplementary measures from which to make adjustments to determine distributable cash.

EBITDA, Adjusted EBITDA and Distributable cash are not earnings measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA, Adjusted EBITDA and Distributable cash may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA, Adjusted EBITDA and Distributable cash should not be construed as an alternative to net earnings determined in accordance with GAAP as indicators of the Fund's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

**Additional Information**

Additional information relating to the Fund is available on SEDAR at [www.sedar.com](http://www.sedar.com)

Consolidated Financial Statements

**Supremex Income Fund**

Unaudited

For the three-month period ended March 31, 2008

All amounts expressed in Canadian dollars

**Supremex Income Fund**

**CONSOLIDATED BALANCE SHEETS**

As at	March 31, 2008 \$	December 31, 2007 \$
	[Unaudited]	
<b>ASSETS</b> (note 6)		
<b>Current</b>		
Cash	141,977	442,509
Accounts receivable	28,012,918	27,947,811
Income taxes receivable	14,516	462
Inventories	16,328,820	15,575,227
Prepaid expenses	2,043,049	1,808,112
<b>Total current assets</b>	<b>46,541,280</b>	<b>45,774,121</b>
Property, plant and equipment, net	45,883,036	46,450,563
Accrued pension benefit asset	5,014,000	5,286,000
Intangible assets, net	48,552,932	50,054,657
Goodwill	258,154,198	257,215,080
	<b>404,145,446</b>	<b>404,780,421</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	18,851,830	19,316,203
Accrued restructuring provision (note 5)	1,875,568	1,042,136
Distribution payable (note 9)	2,808,058	2,832,630
Payable to NPG (note 2)	—	158,504
Current portion of derivative liability (note 12)	1,137,884	263,306
<b>Total current liabilities</b>	<b>24,673,340</b>	<b>23,612,779</b>
Secured credit facilities (note 6)	102,786,240	100,588,056
Future income tax liabilities	13,217,520	14,341,083
Derivative liability (note 12)	1,053,904	520,395
Other post-retirement benefits obligation	912,100	916,600
<b>Unitholders' equity</b>		
Funds units (note 8)	282,932,492	285,408,373
Contributed surplus	7,541,735	6,525,689
Deferred compensation	(10,575,277)	(11,899,000)
Deficit	(16,800,547)	(14,662,862)
Accumulated other comprehensive loss (note 10)	(1,596,061)	(570,692)
	<b>261,502,342</b>	<b>264,801,508</b>
	<b>404,145,446</b>	<b>404,780,421</b>

*See accompanying notes*

On behalf of the Trustees:

By: (Signed) L.G. Serge Gadbois  
Trustee

By: (Signed) Gilles Cyr  
Trustee

**Supremex Income Fund****CONSOLIDATED STATEMENTS OF EARNINGS  
AND DEFICIT**

For the three-month periods ended March 31  
[Unaudited]

	2008 \$	2007 \$
<b>Revenue</b>	<b>47,544,683</b>	47,709,645
Cost of good sold, selling, general and administrative expenses	<b>35,861,644</b>	36,415,230
Earnings before the following	<b>11,683,039</b>	11,294,415
Amortization of property, plant and equipment	<b>1,156,933</b>	938,201
Amortization of intangible assets	<b>1,501,725</b>	1,405,500
Amortization of deferred compensation	<b>1,323,723</b>	1,329,333
(Gain) loss on disposal of property, plant and equipment	<b>(13,928)</b>	8,687
Net financing charges (note 6)	<b>1,406,419</b>	886,814
Restructuring expenses (note 5)	<b>367,705</b>	—
	<b>5,742,577</b>	4,568,535
Earnings before income taxes	<b>5,940,462</b>	6,725,880
Income tax recovery (note 7)	<b>(391,886)</b>	(161,927)
<b>Net earnings</b>	<b>6,332,348</b>	6,887,807
Deficit, beginning of period	<b>(14,662,862)</b>	(7,565,709)
Distribution declared (note 9)	<b>(8,470,033)</b>	(8,998,974)
<b>Deficit, end of period</b>	<b>(16,800,547)</b>	(9,676,876)
<b>Basic and diluted net earnings per unit</b>	<b>0.2145</b>	0.2200
<b>Weighted average number of units outstanding (note 8)</b>	<b>29,525,105</b>	31,311,667

*See accompanying notes*



**Supremex Income Fund**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the three-month periods ended March 31  
[Unaudited]

	2008 \$	2007 \$
<b>OPERATING ACTIVITIES</b>		
Net earnings	6,332,348	6,887,807
Items not affecting cash and cash equivalents		
Amortization of property, plant and equipment	1,156,933	938,201
Amortization of intangible assets	1,501,725	1,405,500
Amortization of deferred compensation	1,323,723	1,329,333
Amortization of deferred financing costs	41,027	33,739
(Gain) loss on disposal of property, plant and equipment	(13,928)	8,687
Future income tax recovery	(391,886)	(179,481)
Change in post-retirement benefits obligation	(4,500)	—
Change in accrued pension benefit assets	272,000	(129,700)
Net change in non-cash working capital balances	(1,993,109)	(4,048,202)
<b>Cash flows related to operating activities</b>	<b>8,224,333</b>	<b>6,245,884</b>
<b>INVESTING ACTIVITIES</b>		
Business acquisitions, net of cash acquired (note 2)	(4,195)	—
Additions to property, plant and equipment	(809,194)	(1,103,630)
Proceeds from disposal of property, plant and equipment	233,716	193,447
<b>Cash flows related to investing activities</b>	<b>(579,673)</b>	<b>(910,183)</b>
<b>FINANCING ACTIVITIES</b>		
Purchase of Fund units for cancellation (note 8)	(1,459,835)	—
Revolving credit facility proceed	2,157,157	—
Repayment of the payable to NPG (note 2)	(147,909)	—
Distributions paid on Fund units	(8,494,605)	(8,998,974)
Repayment of the payable to Cenveo	—	(5,509,045)
Financing costs incurred	—	(66,966)
<b>Cash flows related to financing activities</b>	<b>(7,945,192)</b>	<b>(14,574,985)</b>
<b>Net change in cash and cash equivalents</b>	<b>(300,532)</b>	<b>(9,239,284)</b>
Cash and cash equivalents, beginning of period	442,509	14,251,559
<b>Cash and cash equivalents, ending of period</b>	<b>141,977</b>	<b>5,012,275</b>
<b>Supplemental information</b>		
Interest paid	1,230,042	1,027,774
Income taxes paid	—	124,994

*See accompanying notes*

**Supremex Income Fund****CONSOLIDATED STATEMENTS OF  
COMPREHENSIVE INCOME**

For the three-month periods ended March 31  
[Unaudited]

	<b>2008</b>	<b>2007</b>
	\$	\$
<b>Net earnings</b>	<b>6,332,348</b>	6,887,807
<b>Other comprehensive income</b>		
Change in fair value of derivative designated as cash flow hedge net of income taxes of \$362,469 (\$48,263 in 2007)	<b>(971,118)</b>	106,477
Reclassification adjustment for gain on derivative designated as cash flow hedge transferred to net earnings net of income taxes of \$20,249 (\$9,571 in 2007)	<b>(54,251)</b>	(21,115)
<b>Comprehensive income</b>	<b>5,306,979</b>	6,973,169

*See accompanying notes*

## **Supremex Income Fund**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

[Unaudited]

#### **1. NATURE OF BUSINESS AND BASIS OF PRESENTATION**

Supremex Income Fund (the “Fund”) is an unincorporated open-ended trust established under the laws of the Province of Québec pursuant to a declaration of Trust dated February 10, 2006, as may be amended, supplemented or restated from time to time.

The unaudited interim consolidated financial statements include the accounts of the Fund and its subsidiaries and have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosures have been omitted or condensed. The accounting principles applied are consistent with those as set out in the Fund’s audited consolidated financial statements for the year ended December 31, 2007, except for the new accounting policies described in note 3. These interim financial statements and the notes thereto should be read in conjunction with the audited consolidated financial statement of the Fund for the year ended December 31, 2007 as contained in the Fund’s 2007 annual report.

Supremex is a manufacturer and marketer of a broad range of stock and custom envelopes and related products.

The business of Supremex follows seasonal patterns with the highest revenue occurring from August to February due to the seasonal advertising and mailing patterns of its customers whereby higher number of mailings related to events including the return to school, fund raisers and the holiday and tax seasons occurs during that period. As a result, revenue and financial performance for the three-month period ended March 31, 2008 are not necessarily indicative of the revenue and financial performance that may be expected for a full year.

#### **2. BUSINESS ACQUISITION**

##### **Acquisition of NPG Envelope**

On August 9, 2007, the Fund acquired substantially all the assets of NPG Envelope (“NPG”) for \$25.6 million, including a working capital adjustment. The cash payment was funded with a combination of funds raised from the existing revolving credit facility and cash on hand.

## Supremex Income Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

#### 2. BUSINESS ACQUISITION - (Continued)

The acquisition has been accounted for by the purchase method with the results of NPG's operations included in the Fund's earnings from the date of acquisition. The preliminary purchase price allocation is as follows:

	<b>Total</b>
	<b>\$</b>
Accounts receivable	3,597,155
Inventories	2,079,691
Prepaid expenses	7,131
Property, plant and equipment	6,984,638
Future income tax assets	870,543
Intangible assets	3,849,000
Goodwill	13,090,477
Accounts payable and accrued liabilities	(1,686,067)
Accrued restructuring provision	(2,924,382)
Post-retirement benefits obligation	(278,500)
<b>Net assets acquired</b>	<b>25,589,686</b>
<b>Consideration</b>	
Cash	25,441,777
Payable to NPG	147,909

Estimated liabilities of \$2,924,382 have been included in the preliminary purchase price allocation, relating to estimated costs associated with severance and exit costs. Management is currently carrying out detailed assessments of the assets acquired, liabilities assumed and the integration plan. Changes will be made to the preliminary purchase price allocation when more information becomes available.

#### 3. NEW ACCOUNTING POLICIES

##### *Adopted in 2008*

In the first quarter of 2008, the Fund adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

Section 1535 "*Capital Disclosures*" establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

- Its objectives, policies and processes for managing capital;
- Summary quantitative data about what it manages as capital;
- Whether during the period it complied with any externally imposed capital requirements to which it is subject;

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

[Unaudited]

**3. NEW ACCOUNTING POLICIES - (Continued)**

- When the entity has not complied with such requirements, the consequences of such non-compliance.

Section 3862 “*Financial Instruments - Disclosures*” modifies the disclosure requirements for financial instruments that were included in Section 3861 “*Financial Instruments - Disclosure and Presentation*”. The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the entity’s financial position and performance;
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 “*Financial Instruments – Presentation*” carries forward unchanged the presentation requirements of the old Section 3861 “*Financial Instruments – Disclosure and Presentation*”.

Section 3031 “*Inventories*” prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, allows the use of the retail method, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and the cost of sales.

The adoption of these guidelines did not have any material effect on the Fund’s results, financial position or cash flows.

***Recently issued***

In February 2008, the CICA announced that Canadian public companies will adopt International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) effective January 1, 2011. The Fund is currently assessing the impact of adoption of IFRS on its consolidated financial statements.

## Supremex Income Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

#### 4. EMPLOYEE DEFINED BENEFIT PLANS

The Fund's total benefit cost for the pension plans was \$472,000 for the three-month period ended March 31, 2008 (\$460,000 in 2007).

#### 5. ACCRUED RESTRUCTURING PROVISION

In connection with the acquisition of NPG as described in note 2, the Fund adopted a plan to integrate and restructure the acquired business. As a result, the Fund recognized a provision of \$2,924,382 for severance and relocation and exit costs relating to certain employees and facilities of the acquired business. The Fund expects that these activities will be completed in 2008. The liabilities relating to these costs have been included in the allocation of the purchase price of NPG.

Any costs incurred relating to employees or facilities previously part of the Fund are charged to restructuring expenses as incurred in the consolidated statements of earnings and deficit.

The following is a summary of the amounts accrued and paid relating to restructuring expenses.

	<b>March 31, 2008</b>	December 31, 2007
	\$	\$
Balance, beginning of period	<b>1,042,136</b>	—
Accrued restructuring included in the purchase allocation	<b>1,283,882</b>	1,640,500
Restructuring expenses charged against earnings	<b>367,705</b>	418,635
Cash payments	<b>(818,155)</b>	(1,016,999)
Balance, end of period	<b>1,875,568</b>	1,042,136

#### 6. SECURED CREDIT FACILITIES

The Fund has senior secured credit facilities consisting of a revolving operating credit facility of up to \$40 million and a term credit facility of \$75 million. Both facilities bear interest at a floating rate based on the Canadian prime rate, U.S. base rate, LIBOR or bankers' acceptance rates plus an applicable margin to those rates.

The revolving operating credit facility may be used for general corporate purposes, working capital requirements and permitted acquisitions. Both facilities mature on March 31, 2010 and there are no scheduled repayments of principal required prior to maturity.

**Supremex Income Fund**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

[Unaudited]

**6. SECURED CREDIT FACILITIES - (Continued)**

Amounts drawn under revolving and term credit facilities are as follows:

	<b>March 31, 2008</b>	December 31, 2007
	\$	\$
Revolving credit facility	<b>28,114,108</b>	25,956,951
Term credit facility	<b>75,000,000</b>	75,000,000
Less: deferred financing costs, net	<b>(327,868)</b>	(368,895)
	<b>102,786,240</b>	100,588,056

As at March 31, 2008, the interest rates on the revolving and term credit facilities were 5.22% and 5.02%, respectively. The Fund entered into an interest swap agreement for its term credit facility to pay a fixed rate of 5.426% until March 31, 2007, 5.538% from April 1, 2007 to March 31, 2008, 5.741% from April 1, 2008 to March 31, 2009 and 5.942% from April 1, 2009 to March 31, 2010 (see note 12).

Under the terms of the credit facilities, the Fund is required, amongst other conditions, to meet certain covenants. The Fund was in compliance of these covenants as at March 31, 2008.

The credit facilities are collateralized by hypothec and security interest covering all present and future assets of the Fund and its subsidiaries.

Net financing charges

	<b>Three months ended March 31,</b>	
	<b>2008</b>	2007
	\$	\$
Interest on secured credit facilities	<b>1,379,000</b>	1,038,758
Other interest	<b>(13,608)</b>	(185,683)
Amortization of deferred financing costs	<b>41,027</b>	33,739
	<b>1,406,419</b>	886,814

## Supremex Income Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

#### 7. INCOME TAXES

The income taxes expense differs from the expenses that would be obtained by applying the combined Canadian income tax (federal and provincial) as a result of the following:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Earnings before income taxes	<b>5,940,462</b>	6,725,880
Income taxes at combined federal and provincial statutory rate	<b>1,871,245</b>	2,248,462
Impact of interest expense of Supremex paid to the Fund, eliminated on consolidation	<b>(2,798,690)</b>	(3,055,640)
Effect of change in enacted tax rates	<b>62,085</b>	167,721
Impact of amortization of deferred compensation not deductible for tax purposes	<b>416,973</b>	444,396
Non deductible expenses and other	<b>56,501</b>	33,134
Provision of income taxes (recovery)	<b>(391,886)</b>	(161,927)

#### 8. UNITHOLDERS' EQUITY

##### Fund units

The Fund Declaration of Trust provides that an unlimited number of units may be issued. Each unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges. Each unit entitles the holder to participate equally in all allocations and distributions and to one vote at all meetings of unitholders for each whole unit held.

The Fund units are redeemable at any time at the option of the holder at the lesser of 90% of the weighted average price of the Fund unit during the last ten trading days of the units on an open market and the closing market price on the redemption date. All redemptions are subject to a maximum of \$50,000 in cash redemptions by the Fund at any particular month. Redemptions in excess of this amount will be paid by way of a distribution in specie of the assets of the Fund.



## Supremex Income Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

#### 8. UNITHOLDERS' EQUITY – (Continued)

##### Fund units issued

As at March 31, 2008, there are 29,311,667 units issued by the Fund. No units were issued during the three-month period ended March 31, 2008.

Pursuant to the normal course issuer bid, which began on November 8, 2007, the Fund could purchase for cancellation up to 2,000,000 units until November 7, 2008. During the three-month period ended March 31, 2008, the Fund purchased for cancellation 256,500 units at prices ranging from \$5.60 to \$5.80 per unit and thus completed its normal course issuer bid.

#### 9. DISTRIBUTION

The Fund makes monthly distributions of its available cash to unitholders of record on the last business day of each month, payable on or about the 15th day of the following month. Distributions to unitholders are recorded on an accrual basis. The March distribution in the amount of \$2,808,058 was declared and accrued in March 2008 and paid to unitholders on April 15, 2008. Distributions for the period from January 1, 2008 to March 31, 2008 are as follows:

Period	Record date	Payment date	Per unit \$	Distribution \$
January 2008	January 31, 2008	February 15, 2008	0.0958	2,832,630
February 2008	February 29, 2008	March 17, 2008	0.0958	2,829,345
March 2008	March 31, 2008	April 15, 2008	0.0958	2,808,058
			0.2874	8,470,033

**Supremex Income Fund****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

[Unaudited]

**10. ACCUMULATED OTHER COMPREHENSIVE INCOME**

A derivative designated as cash flow hedge constitutes the sole item in Accumulated Other Comprehensive Income. The changes that occurred during the year were as follows:

	<b>March 31, 2008</b>	December 31, 2007
	\$	\$
Opening balance, net of income taxes	<b>(570,692)</b>	(629,411)
Change in fair value of derivative designated as cash flow hedge, net of income taxes	<b>(971,118)</b>	172,501
Reclassification adjustment for gain on derivative designated as cash flow hedge transferred to net earnings net of income taxes	<b>(54,251)</b>	(113,782)
<b>Accumulated other comprehensive loss</b>	<b>(1,596,061)</b>	(570,692)

**11. INVENTORY AND COST OF SALES**

	<b>March 31, 2008</b>	December 31, 2007
	\$	\$
Raw materials	<b>4,390,415</b>	4,034,804
Work in process	<b>143,181</b>	160,868
Finished goods	<b>11,795,224</b>	11,379,555
	<b>16,328,820</b>	15,575,227

The costs of inventories recognized as an expense are \$31,664,340 for the three-month period ended March 31, 2008.

## Supremex Income Fund

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

#### 12. FINANCIAL INSTRUMENTS

##### Fair value

As at March 31, 2008, the carrying amounts of the financial assets designated as loans and receivables consisting primarily of receivables and short-term financial liabilities classified as other financial liabilities approximate their fair value given that they are expected to be realized or settled in the short term. The carrying amount of secured credit facilities approximates its fair value given its nature and floating interest rate.

The fair value of the derivative financial instruments generally reflects the estimates of the amounts the Fund would receive by way of settlement of favorable contracts or that it would pay to terminate unfavorable contracts at the balance sheet date. The fair values of the interest rate swaps are calculated using the quotes obtained from major financial institutions.

The fair value and carrying amounts of the interest rate swap designated as cash flow hedge as at March 31, 2008 and December 31, 2007 are as follows:

	<b>March 31, 2008</b>	December 31, 2007
	<b>Liabilities</b>	Liabilities
	\$	\$
Short-term	<b>1,137,884</b>	263,306
Long-term	<b>1,053,904</b>	520,395
	<b>2,191,788</b>	783,701

##### Management of risks arising from financial instruments

In the normal course of business, the Fund is exposed to a variety of financial risks, which include credit risk, liquidity risk and market risk. In order to limit the effects of these risks on its revenues, expenses and cash flows, the Fund can avail itself of various derivative financial instruments. The Fund's management is responsible for determining the acceptable level of risk and only uses derivative financial instruments to manage existing or anticipated risks, commitments or obligations based on its past experience.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

[Unaudited]

**12. FINANCIAL INSTRUMENTS – (Continued)**

**Credit risk**

The use of financial instruments and derivatives may lead to a credit risk that corresponds to the risk of financial loss resulting from a counter party's inability or refusal to completely fulfill their obligations. The Fund's surplus cash and interest rate swap are placed with Schedule 1 banks.

Credit risk stems primarily from the potential inability of clients to discharge their obligations. Accounts receivable credit risk is mitigated through established monitoring activities and also by the fact that there is no customer's concentration. Historically, the Fund has never made any significant write-off of its accounts receivables.

**Interest rate risk**

The Fund is exposed to interest rate fluctuations, primarily due to its variable-rate credit facilities. The Fund manages interest rate exposure by entering into swap agreement for its term credit facility consisting in exchanging variable rates for fixed rates.

Furthermore, interest rate fluctuations could have an impact on the interest expense on its revolving credit facility and on income the Fund derives from its cash and cash equivalents. The Fund invests its cash and cash equivalents into highly liquid investment instruments in order to safeguard its capital while generating a reasonable return.

On March 31, 2008, a 25 b.p. rise or fall in interest rates, assuming that all other variables had remained the same, would have resulted in a \$10,341 increase or decrease, in the Fund's net earnings for the three-month period ended March 31, 2008, whereas other comprehensive income would have increased or decreased by approximately \$233,000.

**Liquidity risk**

The Fund is exposed to the risk of being unable to honor its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. The Fund manages liquidity risk by maintaining adequate cash and cash equivalents balances and by appropriately using the Fund's revolving credit facilities. The Fund continuously reviews both actual and forecasted cash flows to ensure that the Fund has appropriate credit facility capacity.

**Foreign exchange risk**

The Fund is exposed to fluctuations in U.S. exchange rate due to the fact that a portion of its activities are conducted in the United States. In the past, purchases and capital expenditures in U.S. dollars were similar to the revenue earned in U.S. dollars which have limited the Fund's foreign exchange exposure. The Fund continuously reviews its exposure to the fluctuations of the U.S. exchange rate and has decided at this time not to enter into derivatives as the exposure is not very significant.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

[Unaudited]

**12. FINANCIAL INSTRUMENTS – (Continued)**

The net financial liabilities in Canadian dollars of the Fund, denominated in U.S. dollars, as at March 31, 2008, amounted to \$1,164,092.

On March 31, 2008, a 5% rise or fall in the Canadian dollar against the U.S. dollar, assuming that all other variables had remained the same, would have resulted in a \$58,205 increase or decrease in the Fund's net earnings for the three-month period ended March 31, 2008, whereas other comprehensive income would have been unchanged. However, the above change in net earnings may have been offset by adjustments to the Canadian pricing required to stay competitive with imports from the United States, mainly in the commodity products.

**13. CAPITAL MANAGEMENT**

The Fund's capital consists of its unitholder's interest and secured credit facilities. The Fund maintains a capital level that enables it to meet several objectives, namely:

- Longevity of its capital to support continued operations;
- Optimize leverage position by targeting a 25% to 40% net indebtedness/total capitalization ration;
- Preserve its financial flexibility in order to benefit from potential opportunities as they arise;
- Providing optimal unitholders returns in terms of Distributable Cash; and
- Sustaining growth of unit's value.

The Fund continually assesses the adequacy of its capital structure and capacity and makes adjustments within the context of the Fund's strategy, economic conditions and risks characteristics of the business in order to maximize its unitholders long term return and distributions.

The Fund monitors capital on the basis of the net indebtedness/total capitalization. For calculation purposes, net indebtedness refers to the secured credit facilities less cash and cash equivalents. Total capitalization comprises net indebtedness and unitholders' equity.

As at March 31, 2008, the net indebtedness/total capitalization was 28.2% (27.4% as at December 31, 2007). Capital management objectives, policies and procedures were unchanged since the last period.

The Fund is not subject to any capital requirement imposed by a regulator.

## **Supremex Income Fund**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

[Unaudited]

#### **14. SEGMENTED INFORMATION**

The Fund currently operates in one business segment being the manufacturing and sale of envelopes. The Fund's net assets amounted to \$260,389,804 in Canada and \$1,112,538 in United States as at March 31, 2008.

The Fund's revenue amounted to \$43,826,848 in Canada and \$3,717,835 in the United States for the three-month period ended March 31, 2008 (2007 - \$40,917,410, and \$6,792,235, respectively).

#### **15. COMPARATIVE FIGURES**

Certain comparative figures from the previous year were reclassified to conform to the presentation adopted for the current year.

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